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ABSTRACT

The analytical problems faced by gross interstate comparisons of higher education funding are reviewed, the overall usefulness to decision-makers of interstate comparisons, and other approaches to comparative analysis are considered. It is claimed that the usefulness of gross interstate comparisons is limited, since both technical and structural differences among states impair the comparability of the data. Technical issues include: the ways that states finance capital expenditures; the states' handling of employee benefits; the treatment of local taxes and state support for student aid programs; and state policies concerning federal funds and nontax funds. Structural differences among states are also discussed: differences in the maturity and size of higher education systems, the relative size of independent higher education, and the age and socioeconomics of the citizens. The analytical pitfalls of comparing a state's higher education appropriations to per-capita income, interpreting the percentage of state allocations to indicate relative priority of higher education among all state services, and comparing the rate of growth of higher education appropriations over time among states are described. It is advocated that interstate analytical efforts should focus on specific issues where the relevance of data to educational concerns is directly evident and problems of comparability are manageable. (SW)

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The Uses and Abuses of Interstate Comparisons of Higher Education Funding

by PAUL E. LINGENFELTER

Those who are interested in interstate comparisons of state and local support for higher education have access to several sources of data and different comparative approaches. The *Chronicle of Higher Education* publishes annually the results of M. M. Chambers' "Grapevine" survey of state appropriations, D. Kent Halstead and Marilyn McCoy recently published studies based on the Higher Education General Information Survey (HEGIS), and the State of Washington Council for Postsecondary Education has published periodically a survey of state and local appropriations. In addition to these widely circulated reports, a variety of other studies have been prepared to critique, interpret, or analyze further the available data on state spending for higher education.

The importance of state and local tax support for higher education is evident from the attention given to the reports mentioned above. Decision makers and individuals who hope to influence decisions are naturally interested in interstate comparisons that might help them identify and achieve an adequate level of support for higher education. A careful review of these studies, however, strongly suggests that the usefulness of gross interstate comparisons is limited. Both technical and structural differences among states impair the comparability of the data, sometimes to the extent that different studies have greatly different findings.

The purpose of this article is to review the analytical problems faced by gross interstate comparisons, to consider their overall usefulness to decision makers, and to suggest other approaches to comparative analysis that might be more useful.

Analytical Problems

Technical Issues. The two most frequently used sources of data on state support of higher education are the M. M. Chambers "Grapevine" series and HEGIS. There are a variety of serious technical problems with both these sources, despite the conscientious efforts of their compilers to procure comparable data.

First, differences in the ways that states finance capital expenditures degrade data comparability. In New York, for example, capital debt service requirements for the State University of New York System are paid through tuition revenues, which results in a larger appropriation of tax revenues for operations than would be needed if tuition were applied to operating costs. Other states finance capital costs through direct appropriations to institutions, while others finance capital projects through revenue bonds or direct state expenditures not reflected in either of these surveys. Capital expenditures are inherently noncomparable because of the diverse ways they are financed and the different capital requirements faced by campuses of different ages. Although both surveys have attempted to exclude direct capital expenditures, the indirect effects of various approaches to financing capital costs impair the comparability of state support for operating costs.

States also handle employee benefits in differing ways that have not always been adequately reflected in national surveys of state support. For example, funding for retirement and insurance benefits has not been included in the data reported for Massachusetts in these surveys, and insurance benefits costing about $30 million have not been included in Illinois data. Different approaches to the financing of these benefits may also degrade data comparability. For example, states with their own retirement systems may choose to defer full financing of each employee's retirement benefits until the employee retires. States without such systems must pay such costs in advance of the employee's retirement. While deferred financing of retirement benefits may be questionable policy, it is difficult to argue that gross appropriations data are comparable when such differences exist.

Other relevant technical factors involve the treatment of local taxes and state support for student aid pro-

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grams. The Chambers survey does not capture local tax revenues that play an important role in financing community colleges in states such as Illinois and California, and that play almost no role in other states such as Florida. The HEGIS survey excludes state student aid programs, which vary greatly in size. The HEGIS survey also excludes state support for postsecondary vocational and technical education in some states while it includes it in others.

State policies concerning federal funds, auxiliary enterprise revenues, and other nontax funds also may have an important indirect effect on state support. For example, some states require universities to deposit all or part of their indirect cost revenues into the state general fund, while other states do not. A state appropriation offset by the deposit of university-generated revenues into the general state treasury clearly represents comparatively less than an appropriation in a state that permits universities to retain all university-generated revenues.

The common technique of dividing appropriations support by full-time-equivalent (FTE) students has potential to be doubly misleading. In addition to the problems with appropriations data discussed above, the cost of educating a student varies so widely among academic programs that an FTE student in one state may be only faintly comparable to an FTE student in another. (This would be a problem even if an FTE student were defined alike in all states, which is not the case.) States with a heavy commitment to graduate and professional education, particularly in the health sciences, would normally have higher per student costs than states emphasizing lower-cost curricula. A dramatic change in the enrollment mix within a state can create the illusion of a shift in state support per student when only the mix of programs supported has changed. Differences in state and institutional funding of public service and research also impair the comparability of per-student costs.

Structural Issues. In addition to these technical problems, differences among the states in several other areas reduce the usefulness of the national data bases on state support for higher education. There are vast differences among the states in the maturity and size of their higher education systems. Large states may achieve economies of scale not possible in smaller states, and states attempting to catch up to states with more mature systems of higher education will incur start-up costs for new programs and institutions. In addition, they may be forced to pay a premium in order to recruit quality faculty and staff. In short, they must spend more to achieve comparable quality.

Another important structural dimension is the relative size of independent higher education in the various states. In some respects the means by which the citizens of a state support higher education are incidental to the quality of service available to the state. Some of the states that rank relatively low in state appropriations for higher education (e.g., Pennsylvania and Massachusetts) rank very high in citizen support for independent institutions. To the extent that a state's investment in higher education reflects the level of service provided, all sources of revenue, not just state appropriations, are relevant.

Also pertinent is the degree to which states differ in the age and socioeconomic characteristics of their citizens and thus in citizens' need for higher education services. States with a large population in the traditional college age group have needs different from states where this group is smaller. The extent to which a state exports or imports students is also a factor. Some states have an average or above-average participation rate in higher education, but the affluence of their citizens enables many students to achieve their educational goals outside those states. The exportation of students under such circumstances reduces the level of state appropriations necessary to provide quality services for the citizens of the state.

Analytical Pitfalls. Appropriations for higher education are often compared to per-capita income in the various states. The underlying assumption, of course, is that higher education should receive some fixed proportion of a state's wealth. Richer states then would enjoy a more generously funded system of higher education than poorer states. (This measure also assumes that tax funds are the only relevant source of investment in higher education.)

Under the assumption that every state needs a solid system of higher education, however, the natural tendency for richer states would be to spend a smaller fraction of their wealth on higher education than poorer states. If higher education is indeed a necessity, poorer states are likely to spend a larger proportion of their income on higher education just as poorer people spend a greater percentage of their income on food and housing.

Another common measure, the percentage of state appropriations allocated to higher education, is usually interpreted to indicate relative priority of higher education among all state services. While this does suggest *relative* priority, its usefulness is limited because (1) the range and extent of services provided by state and local governments differ widely across the country; (2) in some regions of the country, government provides services that in other regions are financed through user fees or private organizations; and (3) there is wide variance among states in terms of the size of the state budget compared to total economic activity in the state.

Under such conditions it is difficult to know whether a high percentage of the state budget allocated to higher education means that higher education is highly valued, that other state services have a low priority, or that other services sometimes financed by government are being financed privately.

Within a state, an increase or decrease in the percentage allocation of tax revenues to higher education could signify a change in priority, but it could also mean that new sources of revenue have been allocated to meet unmet needs while the commitment to existing programs is unchanged. In short, the percentage of a state budget allocated to any single area is not a very satisfactory indicator of either relative priorities or the absolute level of service provided.

Possibly the most useful (and least misleading) approach commonly used in the analysis of higher education finance is to examine the growth of higher education appropriations over time. It is clearly helpful to know whether the growth in state support for higher education has kept pace with inflation. Changes in constant dollar expenditures for higher education may suggest whether a state is increasing or cutting back the level of its investment.

Comparisons among states in the rate of growth, however, can be particularly deceptive. States that are experiencing rapid population and economic growth naturally should increase support for higher education faster than states not experiencing such growth. Likewise, states with a well-developed system of higher edu-

cation may have no need to increase constant dollar expenditures at the rate that might be desirable in states where higher education is less well developed. In short, this measure is useful from the perspective of an individual state but has less relevance as a comparative measure.

The Use of State-Level Financial Comparisons

Despite the numerous technical and analytical problems described above, broad comparative data on higher education finance can provide a general context for interpreting more specific information about individual states. While such comparisons are of little value as an absolute measure of support for higher education, information concerning relative trends among states can be enlightening. From this perspective, efforts to deal with some of the more flagrant technical problems are constructive and should improve the data.

The nature of the problems discussed above, however, suggests that even data that are technically improved will not help states decide whether their level of funding for higher education is adequate. Such decisions must necessarily rely on considerations that are more closely linked to specific needs. Although nearly all comparative studies will encounter technical problems, interstate studies that focus on specific concerns such as faculty salaries are somewhat less likely to founder on noncomparability of data. For example, interstate comparisons are possible for faculty salaries, degrees awarded, availability of student assistance, participation rates, federal funding obtained, and professional graduates imported or exported. Moreover, studies of such data are likely to be more useful than studies of gross funding levels because they relate to specific programmatic and policy issues.

In conclusion, the structural and technical problems that afflict gross comparisons of state support for higher education make efforts to analyze and argue from such data largely unproductive. Extensive analysis of such data is dangerous because differences among the states can produce misleading results. Therefore, interstate analytical efforts should focus on specific issues where the relevance of data to educational concerns is more direct and where the problems of comparability are more manageable. ◆

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